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Financial reports and audited financial statements, and reports of the Board of Auditors: United Nations peacekeeping operations

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2007

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered, in advance form, the report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2007 (A/62/5 (Vol. II), chap. II). During its consideration of the report, the Advisory Committee met with the members of the Audit Operations Committee, who provided additional information and clarification.

2. The Board's audit covered:

(a) Headquarters operations;

(b) Fourteen active peacekeeping operations;

(c) The United Nations Logistics Base at Brindisi, Italy;

(d) Twenty-four completed missions;

(e) The Peacekeeping Reserve Fund;

(f) The support account for peacekeeping operations;

(g) Two missions funded under the regular budget.

The Board of Auditors also addressed requests made by the Advisory Committee and the General Assembly, as outlined in paragraphs 4 and 5 of its report. The

Board's main findings are outlined in the summary and its main recommendations in paragraph 16 of the report.

3. The present report addresses general issues related to the findings of the Board of Auditors. The Advisory Committee takes into account the Board's comments on specific matters on peace operations in the context of missions' performance reports and budgets. In addition, in its general report on peacekeeping operations, the Committee makes observations and recommendations on cross-cutting issues also dealt with by the Board.

4. **The Advisory Committee commends the Board for the quality of its report.**

5. The Advisory Committee notes that the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors concerning peacekeeping operations for the financial period ended 30 June 2007 (A/62/784) was available only after the Committee had concluded its hearings with the Board of Auditors. Where applicable, the Committee will refer to the Secretary-General's report in its comments below.

6. The Board of Auditors issued a modified audit opinion with two emphases of matter on the financial statements for the period under review. The first emphasis of matter relates to the cancellation of unliquidated obligations in the amount of $202.28 million, reflected as savings on cancellation of prior-period obligations. **The Advisory Committee shares the concern expressed by the Board that the high incidence of cancellation of prior-period obligations may be indicative of an overstatement of expenditures in previous years (see also A/62/781, para. 17).**

7. The second emphasis of matter relates to the amount of $1.38 billion, representing the original cost of non-expendable property. Significant discrepancies were noted when the results of physical counts carried out were compared with the balances shown in the asset records, indicating deficiencies in the system of asset management in the various missions. Similar deficiencies were observed in relation to unused expendable property. **The Advisory Committee shares the concerns expressed by the Board and comments further on these matters in paragraphs 15 and 16 below.**

8. The Advisory Committee notes that only since 30 June 2007 have liabilities for after-service health insurance been reflected in the financial statements of peacekeeping operations. The Board therefore did not include a review for the period 2006/07 but intends to follow up on the matter in the context of its audit for the period 2007/08. **The Committee requests that this planned follow-up include a review of how after-service health insurance liabilities would be presented in the context of the implementation of the International Public Sector Accounting Standards. In this regard, the Committee recalls General Assembly resolution 61/264 on liabilities and proposed funding for after-service health insurance.**

9. **The Advisory Committee notes in its general report on peacekeeping operations that missions benefit from significant in kind contributions from host Governments and others and requests that the Board of Auditors review the matter in the context of its next report on peacekeeping operations (A/62/781, para. 20).**

10. The Advisory Committee notes that the Board followed up on the status of implementation of its recommendation regarding its analysis of the support account for the period ended 30 June 2006. The Committee recalls its request to the Board of Auditors, in accordance with Financial Regulation 7.7, to undertake an "analysis of how the support account has evolved to its current application and configuration, and how it may further evolve" (A/59/736, para. 20) and that the information provided by the Board in that regard was "mainly statistical in nature" (A/60/784, para. 30).

11. The Board had recommended to the Administration that it re-examine the provisions of the report on the support account submitted by the Secretary-General in 1990 (A/45/493). The Secretary-General responded that in February 2008, all departments and offices funded from the support account were requested to review its criteria, bearing in mind the context in which they were set out, i.e., prior to the formal establishment by the General Assembly of the peacekeeping operations support account and at a time of ad hoc backstopping of peacekeeping operations, when the establishment of peacekeeping backstopping posts was under the Secretary-General's authority (A/62/784, para. 18). The Advisory Committee notes that the Board examined nine completed reviews of electronic performance appraisal system (e-PAS) records for the period from 1 April 2006 to 31 March 2007 and found that three e-PAS workplans did not indicate activities directly related to peacekeeping. Further, the self-evaluation by six staff members did not indicate actual work done for peacekeeping. **The Advisory Committee emphasizes that it is necessary to ensure that support account resources are sought and utilized only to support peacekeeping operations.**

12. The report of the Board of Auditors points out that the Administration has agreed that, in the light of changing circumstances and needs, it will revisit the provisions of A/45/493 to determine which criteria may hamper the efficient management of the support account. **The Advisory Committee looks forward to the conclusion of that review and any related proposals that may be presented to the General Assembly by the Secretary-General.**

Results-based budgeting

13. The Board noted, in its review of compliance of the support account budget with the results-based budgeting logical framework, that "the first expected accomplishment was a general statement which did not provide for comparison with the actual accomplishment" and that "a significant number of identified outputs were activities to be undertaken to achieve the expected accomplishments and not the product of those activities, and therefore were not quantified" (A/62/5 (Vol. II), chap. II, para. 76). In this context, the Advisory Committee recalls that the General Assembly intends to take up matters related to the results-based management framework. The Committee comments further on results-based budgeting in its general report on peacekeeping operations (A/62/781, paras. 11-12).

14. The Advisory Committee shares the Board's interest in the results-based budgeting framework and notes that the Board has extensively reviewed results-based budgeting parametres of peacekeeping missions and the support account. The Committee believes that the Board is therefore in a unique position to build on the work already done and requests that the Board widen the scope of its results-based

budgeting reviews with the aim of providing an additional, evaluation-based perspective.

Expendable and non-expendable property

15. The Board of Auditors issued a modified audit opinion because of concern with regard to expendable and non-expendable property. Significant discrepancies were observed between physical counts and balances shown in computerized asset records, indicating deficiencies in the asset management systems of various missions. The Board reiterated its recommendation that an effective system of inventory management be implemented and recommended that the United Nations Stabilization Mission in Haiti (MINUSTAH), the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC), the United Nations Mission in Liberia (UNMIL) and the United Nations Logistics Base at Brindisi, Italy, conduct a physical inventory and reconciliation with the Galileo system of all expendable property, update the Galileo system and ensure that Galileo records are accurate. The Secretary-General indicated in his response that a system of inventory management would be implemented by the fourth quarter of 2008 and that inventory activities in the missions noted above were ongoing (A/62/784, paras. 35 and 36). **The Advisory Committee agrees with the Board that inadequate inventory record keeping carries with it an inherent risk of financial loss to the Organization and will continue to scrutinize asset management matters during its consideration of matters related to peacekeeping operations, as well as of the Logistics Base and the support account. The Committee looks forward to receiving an update by the Board in the context of its review of peacekeeping operations for the period 2007/08.**

16. The Board recommended that the Administration consider disclosing the value of unused expendable property in preparation for the implementation of the International Public Sector Accounting Standards. The Secretary-General responded that neither the Financial Regulations and Rules nor the United Nations system accounting standards require such disclosure and that considerable administrative resources would be required to gather and maintain data combined with modifications of systems, processes and procedures but that such disclosure would be appropriate when financial statements that are in compliance with the International Public Sector Accounting Standards are prepared in the future (A/62/784, para. 34). **The Advisory Committee notes the Secretariat's explanation concerning the resource implications of taking a full inventory and updating databases. Nonetheless, the Committee believes that disclosure of the value of expendable property should not be dependent on the type of system in place, but should be considered a prudent management practice aimed at maximizing controls and minimizing risk. This applies in particular to the management of stock levels of equipment and vehicle spare parts. The Committee recommends that the Secretariat take steps to strengthen control of expendable and non-expendable equipment and requests the Board of Auditors to continue its review of the inventory management of equipment and vehicle spare parts. In its general report on peacekeeping operations, the Committee comments on the question of the management and storage of and delivery lead times for spare parts (A/62/781, para. 55).**

Vehicle fleet management

17. The Advisory Committee was informed by the Secretariat that the mission electronic fuel accounting system was implemented at MONUC, the United Nations Operation in Burundi, the United Nations Interim Force in Lebanon, UNMIL and the United Nations Mission in the Sudan. The Board recommended that measures be taken to rectify deficiencies with regard to that system. The Committee notes that the Secretariat is planning to replace the mission electronic fuel accounting system with the electronic fuel management system, commencing in the first quarter of 2009 (A/62/727, para. 60). **The Committee points out that the shortcomings revealed with regard to the mission electronic fuel accounting system underscore the importance of effective electronic fuel accounting systems as a means of control and prevention of fraud. The Committee therefore trusts that the Board will continue to assess the adequacy of internal controls and related measures to mitigate risk regarding missions' fuel consumption, as well as continue to review the adequacy of any new systems to mitigate such risks (see also A/62/781, paras. 47 and 48).**

Procurement and contract management

18. The Advisory Committee notes that the Board of Auditors has continued to pay close attention to the subject of procurement and contract management and has commented extensively on systems contracts, procurement lead times, delegation of authority, vendors' performance and liquidated damages (including performance bonds), vendors' performance reports, procurement staff and filing systems, and reviews by the Headquarters Committee on Contracts. **The Committee shares in particular the Board's concern about the non-provision of performance bonds and believes that they are paramount to identify vendors' performance records and to mitigate future financial risk to the Organization. The Committee recognizes the potential risks involved with regard to procurement activities and commends the Board for its work in this area.**

Rations management

19. The Board observed that ration storage monitoring needs to be undertaken on a daily basis so as to mitigate spoilage of goods. Upon enquiry, the Board informed the Advisory Committee that emergency rations in bunkers had not been inspected as part of its audit activities. **The Committee emphasizes that rations should be stored at the required temperature and be used while they are still fresh, and if that is not feasible, that they should be donated while their safe consumption is still possible. The Committee is concerned about the possible financial implications of spoilage as a result of goods being budgeted for and purchased but then having to be discarded. The Committee trusts that the Board will continue to monitor the situation, including rations stored at operationally critical locations (see also A/62/781, para. 49)**

Air transportation

20. The Advisory Committee agrees with the Board that aviation safety inspections are of paramount importance, forming "the basis for identifying the remedial action needed to enhance aviation safety and prevent accidents" (A/62/5 (Vol. II), chap. II, para. 248). The Committee notes with concern that, during the

period 2006/07, only 16 of the required 25 aviation surveys were concluded by headquarters aviation safety personnel and notes from paragraph 78 of the response of the Secretary-General (A/62/784) that full implementation of the Board's recommendation is dependent on the provision of resources. **The Committee stresses that regular inspections are paramount to ensure flight safety pursuant to the applicable international standards.**

21. The Advisory Committee notes that the Board of Auditors has raised a number of issues relating to non-compliance with established procedures on the transportation of non-United Nations personnel on United Nations flights, including cost reimbursement. **The Committee notes the responses by the Secretariat and the missions concerned and expects that expeditious measures will be taken to respond to the concerns raised by the Board. The Committee comments on air transportation matters in its general report on peacekeeping operations (A/62/78, paras. 40-46).**

Integrated mission planning process

22. The Administration agreed with the Board's recommendation "to ensure that integrated mission planning process guidelines are finalized and made fully operational as soon as possible (A/62/5 (Vol. II), chap. II, para. 323)". In his report on the implementation of the Board's recommendations, the Secretary-General noted that guidelines were under review in an interdepartmental and inter-agency working group, that integrated mission planning process training modules for Headquarters and field personnel would be subsequently developed and that draft guidelines would be finalized during the third quarter of 2008 (A/62/784, para. 104). **The Advisory Committee trusts that the Board will provide an update on the implementation of integrated mission planning process guidelines in the context of its review of peacekeeping operations for the period 2007/08.**

Quick-impact projects

23. At the time of the Board's review, the guidelines for the administration of quick-impact projects remained in draft form and the Board recommended their expedited finalization and implementation in all missions. The Advisory Committee notes from the Secretary-General's report on the implementation of the Board's recommendations that the target date for completion of the guidelines was the second quarter of 2008 (A/62/784, para. 106). **The Advisory Committee looks forward to an update by the Board in the context of its review of peacekeeping operations for the period 2007/08.**

Office of Internal Oversight Services

24. The Board reviewed the work of the Office of Internal Oversight Services relating to internal audit coverage of peacekeeping operations. The purpose of the review was to ascertain the extent to which reliance could be placed on its work. The Board noted that audit activities were planned on an annual basis. For 2006, of the 201 audits planned, only 86, or 43 per cent, had been undertaken and completed as at 31 December 2006, while 46 audits were ongoing at the time. **The Advisory Committee expresses concern that the Office of Internal Oversight Services carried out fewer audits than set out in its annual workplan. The Committee will monitor the situation in the context of its consideration of matters related**

to the Office and expects that the Board will continue its reviews of the implementation of the annual workplans of the Office.

25. The Advisory Committee shares the Board's concern about vacant resident auditor posts. The Committee notes that the Board has already addressed the matter, in its report on the period 2005/06, indicating that the average vacancy rate for resident auditors for the period 2004/05 was 16 per cent (A/61/5 (Vol. II), chap. II, para. 341). In its current report, the Board does not provide comparative percentages for the periods 2005/06 and 2006/07 but observes that the situation with regard to resident auditor vacancies has not improved at MINUSTAH, MONUC or UNMIL. In his report on the implementation of the Board's recommendations, the Secretary-General notes that the Office of Internal Oversight Services is planning to fill resident auditor posts by 31 October 2008 (A/62/784, para. 111); see also the Advisory Committee's general report on peacekeeping operations (A/62/781, para. 23).

26. **The Advisory Committee is very concerned that, as a result of the continued high rate of resident auditor vacancies, audit activities, in particular at large and complex peace missions, have been curtailed and that the Office of Internal Oversight Services is therefore unable to provide the oversight services to missions as envisaged by the General Assembly. The Committee will continue to monitor the matter in the context of future budget and administrative hearings with the Office of Internal Oversight Services and looks forward to an update by the Board in the context of its next report on peacekeeping operations.**